

# **The Dunedin Fine Art Center, Inc.**

## **Financial Statements**

**September 30, 2018 and 2017**



**THE DUNEDIN FINE ART CENTER, INC.  
TABLE OF CONTENTS**

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**INDEPENDENT AUDITOR'S REPORT** .....3 - 4

Financial Statements for the Years Ended  
September 30, 2018 and 2017:

Statements of Financial Position ..... 5

Statements of Activities .....6 - 7

Statement of Functional Expenses ..... 8

Statements of Cash Flows ..... 9

Notes to Financial Statements ..... 10 - 25



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The Dunedin Fine Art Center, Inc.  
Dunedin, Florida

We have audited the accompanying financial statements of The Dunedin Fine Art Center, Inc. (DFAC), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the related statement of functional expenses for the year ended September 30, 2018, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**CONTINUED**

## INDEPENDENT AUDITOR'S REPORT - CONTINUED

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Dunedin Fine Art Center, Inc. as of September 30, 2018 and 2017, and the changes in its net assets, and its cash flows for the years then ended, and its functional expenses for the year ended September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited DFAC's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*PDR CPAs + Advisors*

Oldsmar, Florida  
January 10, 2019

**THE DUNEDIN FINE ART CENTER, INC.  
STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2018 AND 2017**

**ASSETS**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 20,940	\$ 17,873
Restricted cash	183,970	151,878
Investments	2,838,074	1,255,771
Grants and other receivables	4,856	18,230
Promises to give, net	35,116	65,167
Inventory	6,003	5,159
Prepaid expenses	2,405	706
Property and equipment, net	116,082	106,252
Unamortized leasehold interest	5,331,570	5,648,902
	<b>\$ 8,539,016</b>	<b>\$ 7,269,938</b>

**LIABILITIES AND NET ASSETS**

<b>Liabilities</b>		
Accounts payable	\$ 39,040	\$ 46,946
Deferred income	142,598	102,156
Accrued expenses	34,493	27,005
	216,131	176,107
<b>Net Assets</b>		
Unrestricted net assets:		
Unrestricted net assets, including \$2,007,723 and \$425,420 of board designated funds, respectively	1,844,128	380,250
Property and equipment	116,082	106,252
	<b>1,960,210</b>	<b>486,502</b>
Temporarily restricted net assets	5,532,324	5,776,978
Permanently restricted net assets	830,351	830,351
	<b>8,322,885</b>	<b>7,093,831</b>
	<b>\$ 8,539,016</b>	<b>\$ 7,269,938</b>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2018**  
**(WITH COMPARATIVE TOTALS FOR 2017)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2018</u>	<u>2017</u>
<b>Public Support and Revenue</b>					
Membership	\$ 92,083	\$ -	\$ -	\$ 92,083	\$ 83,088
Education	885,070	-	-	885,070	788,660
Gallery Shop sales (net of costs of goods sold of \$47,790)	34,235	-	-	34,235	18,860
Exhibition sponsorships (net of direct costs of \$10,634)	32,058	-	-	32,058	34,464
Special events (net of direct costs of \$97,362)	246,001	-	-	246,001	211,422
Grant income	40,997	-	-	40,997	75,181
Contributions	1,550,321	356,201	-	1,906,522	264,262
Program support sponsorships	2,512	-	-	2,512	23,000
Investment income, net	-	45,171	-	45,171	14,789
Net realized and unrealized gain on investments	-	98,752	-	98,752	66,715
In-kind donations	359,626	-	-	359,626	480,021
Other	73,946	-	-	73,946	80,498
Net assets released from restrictions	744,778	(744,778)	-	-	-
<b>Total public support and revenue</b>	<b>4,061,627</b>	<b>(244,654)</b>	<b>-</b>	<b>3,816,973</b>	<b>2,140,960</b>
<b>Expenses</b>					
Program service:					
Art education and cultural awareness	2,033,179	-	-	2,033,179	1,959,259
Support services:					
Management and general	248,596	-	-	248,596	301,221
Fundraising	306,144	-	-	306,144	369,537
<b>Total support services</b>	<b>554,740</b>	<b>-</b>	<b>-</b>	<b>554,740</b>	<b>670,758</b>
<b>Total expenses</b>	<b>2,587,919</b>	<b>-</b>	<b>-</b>	<b>2,587,919</b>	<b>2,630,017</b>
<b>Change in Net Assets</b>	<b>1,473,708</b>	<b>(244,654)</b>	<b>-</b>	<b>1,229,054</b>	<b>(489,057)</b>
<b>Net Assets, Beginning of Year</b>	<b>486,502</b>	<b>5,776,978</b>	<b>830,351</b>	<b>7,093,831</b>	<b>7,582,888</b>
<b>Net Assets, End of Year</b>	<b>\$ 1,960,210</b>	<b>\$ 5,532,324</b>	<b>\$ 830,351</b>	<b>\$ 8,322,885</b>	<b>\$ 7,093,831</b>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Public Support and Revenue</b>				
Membership	\$ 83,088	\$ -	\$ -	\$ 83,088
Education	788,660	-	-	788,660
Gallery Shop sales (net of costs of goods sold of \$33,467)	18,860	-	-	18,860
Exhibition sponsorships (net of direct costs of \$7,005)	34,464	-	-	34,464
Special events (net of direct costs of \$96,643)	211,422	-	-	211,422
Grant income	75,181	-	-	75,181
Contributions	28,673	230,589	5,000	264,262
Program support sponsorships	23,000	-	-	23,000
Investment income, net	-	14,789	-	14,789
Net realized and unrealized gain on investments	-	66,715	-	66,715
In-kind donations	480,021	-	-	480,021
Other	80,498	-	-	80,498
Net assets released from restrictions	<u>1,046,065</u>	<u>(1,046,065)</u>	<u>-</u>	<u>-</u>
<b>Total public support and revenue</b>	2,869,932	(733,972)	5,000	2,140,960
<b>Expenses</b>				
Program service:				
Art education and cultural awareness	1,959,259	-	-	1,959,259
Support services:				
Management and general	301,221	-	-	301,221
Fundraising	<u>369,537</u>	<u>-</u>	<u>-</u>	<u>369,537</u>
<b>Total support services</b>	<u>670,758</u>	<u>-</u>	<u>-</u>	<u>670,758</u>
<b>Total expenses</b>	<u>2,630,017</u>	<u>-</u>	<u>-</u>	<u>2,630,017</u>
<b>Change in Net Assets</b>	239,915	(733,972)	5,000	(489,057)
<b>Net Assets, Beginning of Year</b>	<u>246,587</u>	<u>6,510,950</u>	<u>825,351</u>	<u>7,582,888</u>
<b>Net Assets, End of Year</b>	<u>\$ 486,502</u>	<u>\$ 5,776,978</u>	<u>\$ 830,351</u>	<u>\$ 7,093,831</u>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	Supporting Services				Total Expenses	
	Program Services	Management and General	Fund Raising	Total Support Services	2018	2017
Salaries and related costs:						
Salaries	\$ 542,094	\$ 87,396	\$ 111,784	\$ 199,180	\$ 741,274	\$ 681,823
Employee benefits	80,737	13,016	16,648	29,664	110,401	99,403
Payroll taxes	45,465	7,330	9,375	16,705	62,170	49,869
<b>Total salaries and related costs</b>	<b>668,296</b>	<b>107,742</b>	<b>137,807</b>	<b>245,549</b>	<b>913,845</b>	<b>831,095</b>
Other expenses:						
Education	433,152	-	-	-	433,152	421,385
Public relations	88,137	14,210	18,175	32,385	120,522	119,262
Administrative	92,569	12,373	-	12,373	104,942	99,780
Utilities and custodial services	38,959	6,281	8,034	14,315	53,274	54,639
Exhibitions costs	42,231	-	-	-	42,231	52,773
Computer	27,784	4,479	5,729	10,208	37,992	25,791
Insurance	23,553	3,797	4,857	8,654	32,207	32,267
Credit card fees	20,372	3,284	4,201	7,485	27,857	25,655
Equipment rental and maintenance	19,411	3,130	4,003	7,133	26,544	11,221
Contract services	17,559	2,831	3,621	6,452	24,011	28,709
Repair and maintenance	12,419	2,002	2,561	4,563	16,982	14,296
Professional fees	11,189	1,804	2,307	4,111	15,300	14,395
Staff training	8,916	1,437	1,839	3,276	12,192	10,748
Office expense	8,626	1,391	1,779	3,170	11,796	11,302
Grants expense	4,837	780	998	1,778	6,615	4,631
Dues and subscriptions	3,842	619	792	1,411	5,253	5,067
Membership	-	-	4,001	4,001	4,001	211
Postage	871	140	180	320	1,191	1,204
Interest	-	-	-	-	-	3,713
Other expenses	-	-	-	-	-	348
<b>Total other expense</b>	<b>854,427</b>	<b>58,558</b>	<b>63,077</b>	<b>121,635</b>	<b>976,062</b>	<b>937,397</b>
Expenses before in-kind expenses and depreciation and amortization	1,522,723	166,300	200,884	367,184	1,889,907	1,768,492
In-kind expenses	263,726	42,518	54,382	96,900	360,626	480,021
Depreciation and amortization	246,730	39,778	50,878	90,656	337,386	381,504
<b>Total functional expenses</b>	<b>\$ 2,033,179</b>	<b>\$ 248,596</b>	<b>\$ 306,144</b>	<b>\$ 554,740</b>	<b>\$ 2,587,919</b>	<b>\$ 2,630,017</b>

See accompanying notes to financial statements



**THE DUNEDIN FINE ART CENTER, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 1,229,054	\$ (489,057)
<b>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	337,386	381,504
Realized gain on investments	(2,236)	(26,520)
Unrealized gain on investments	(96,516)	(40,195)
<b>(Increase) decrease in operating assets:</b>		
Grants/other receivables and promises to give, net	43,425	138,116
Inventory	(844)	5,196
Prepaid expenses	(1,699)	173
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable	(7,906)	(13,393)
Deferred income	40,442	3,410
Accrued expenses	7,488	(3,053)
	<b>1,548,594</b>	<b>(43,819)</b>
<b>Cash Flows from Investing Activities</b>		
Cash paid for leasehold interest/property and equipment	(29,884)	(23,090)
Purchases of investments	(5,782,730)	(243,011)
Proceeds from sale of investments	4,299,179	286,427
	<b>(1,513,435)</b>	<b>20,326</b>
<b>Cash Flows from Financing Activities</b>		
Payments on note payable	-	(215,017)
	<b>35,159</b>	<b>(238,510)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
<b>Cash and Cash Equivalents, Beginning of Year</b> (including restricted cash of \$151,878 at September 30, 2017)	<b>169,751</b>	<b>408,261</b>
<b>Cash and Cash Equivalents, End of Year</b> (including restricted cash of \$183,970 at September 30, 2018)	<b>\$ 204,910</b>	<b>\$ 169,751</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<b>\$ -</b>	<b>\$ 3,713</b>

See accompanying notes to financial statements

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE A - NATURE OF OPERATIONS**

The Dunedin Fine Art Center, Inc. (DFAC) was organized in 1974 as a not-for-profit corporation under the laws of Florida. DFAC's mission is to offer creative educational experiences in the visual arts. This is done by offering adult and youth art classes at three different campuses. DFAC sponsors exhibitions and shows that are open to the public and provide a lively summer youth camp. Additionally, DFAC provides community outreach for schools and community groups by providing hands-on art projects at schools and events.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of DFAC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

DFAC presents information regarding its financial position and activities according to three classes of net assets described as follows:

- Unrestricted Net Assets - All resources over which the governing board has discretionary control. The governing board of DFAC may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.
- Temporarily Restricted Net Assets - Resources accumulated through donations or grants for specific operating or capital purpose. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.
- Permanently Restricted Net Assets - Resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. These net assets include the original value of the gift, plus any subsequent additions.

**Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates included in the financial statements include allocation of expenses by function, useful lives of depreciable and amortizable assets, and net present value of promises to give.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Fair Value Measurement**

The financial statements are prepared in accordance with an accounting standard, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

**Cash and Cash Equivalents**

DFAC considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of reporting cash flows.

Financial instruments which potentially subject DFAC to concentrations of credit risk consist principally of cash and cash equivalents held in financial institutions in excess of federally-insured limits. From time to time throughout the years ended September 30, 2018 and 2017, DFAC's cash balance may have exceeded the federally insured limit. However, DFAC has not experienced and does not expect to incur any losses in such accounts.

**Restricted Cash**

Restricted cash consists of amounts received in connection with DFAC's capital projects. Additionally, restricted cash is considered temporarily restricted and meets the requirements of cash equivalents.

**Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment gains and losses (including realized and unrealized gains and losses on investments, interest and dividends) are included in the accompanying statements of activities.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Promises to give which are due in more than one year are recorded at the present value by discounting future cash flows using current risk-free rates of return based on U.S. Treasury Securities yields with maturity dates similar to the expected contribution collection period. Management reviews outstanding promises to give on an ongoing basis. As of September 30, 2018 and 2017, no allowance was deemed necessary by management.

**Inventory**

Inventory is stated at the lower of cost or market, on the first-in, first-out (FIFO) basis and consists of merchandise held for sale in the Gallery Shop as well as certain supplies held for consumption during operations.

**Property and Equipment**

Property and equipment are recorded at cost when purchased or, if donated, at estimated fair value at the date of donation. Improvements and betterments in excess of \$5,000 that materially prolong the useful lives of assets are capitalized. Depreciation is calculated using a straight-line method with a full year convention over the useful lives of the respective assets ranging from three to twenty years.

**Unamortized Leasehold Interest**

The leasehold interest conveyed to the City of Dunedin (the City) is being amortized on a straight-line basis over the period of benefit of the leasehold rights.

**Impairment of Long-Lived Assets**

DFAC reviews long-lived assets, including the unamortized leasehold interest, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

DFAC assesses the recoverability of the cost of the asset based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Revenue Recognition**

All contributions, grants, and bequests are considered to be available for unrestricted use, unless specifically restricted by the donor. Contributions, including pledges, are recognized as revenue when received, grants when designated, and bequests when the amount can be reasonably estimated and the right to receive the bequest is determinable.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, DFAC reports the support as unrestricted.

**Noncash Contributions**

Donated materials are recorded as support at their fair value at the date of donation. Contributions of services are recorded as support at their estimated fair value if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

No amounts have been reflected in the financial statements for donated volunteer services in connection with the various programs since they do not meet the requirements under financial accounting standards.

**Deferred Income**

Deferred income consists of membership fees, event sponsorships and tuition that are collected in advance and are recognized as revenue in the period in which they are earned.

**Income Tax Status**

DFAC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Uncertain Tax Positions**

DFAC accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Uncertain Tax Positions - Continued**

DFAC has identified its tax status as a tax-exempt entity as its only significant tax position; however, DFAC has determined that such tax position does not result in an uncertainty requiring recognition. DFAC is not currently under examination by any taxing jurisdiction. DFAC's federal returns are generally open for examination for three years following the date filed.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on a percentage of hours served by personnel.

**Summarized Comparative Information**

The accompanying financial statements include certain prior year summarized comparative total amounts. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with DFAC's financial statements for the year ended September 30, 2017.

**Reclassifications**

Certain amounts in the 2017 financial statement have been reclassified to conform to the 2018 presentation. The change had no impact on the prior year's change in net assets.

**NOTE C - BUILDING MAINTENANCE AND THE CITY OF DUNEDIN**

DFAC's building and land improvements are located on property owned by the City. The cost of the original building and land improvements (from inception in 1974 through 1989) were previously transferred to the City and are not reflected in the accompanying statements of financial position. All leasehold improvements made since 1990 were conveyed to the City effective September 30, 2014 and the second floor of the west wing was conveyed effective September 30, 2016. These amounts are reflected as an unamortized leasehold interest on the statements of financial position as of September 30, 2018 and 2017 (see **NOTE G**). DFAC occupies the building under an agreement with the City, whereby DFAC operates the inside of the building and the City provides facility repair and outside and ground maintenance.

Any major repairs or replacements to the exterior of the building and the grounds, including - but not limited to - the roof, air conditioners, exterior painting, exterior lights and the parking lots are provided by the City. The City also pays for water, sewage, and ground maintenance.

The City's in-kind donation includes building maintenance expenses, such as ground maintenance, and facility repair. The in-kind donation for September 30, 2018 and 2017 was \$99,561 and \$94,100, respectively. This amount is included in total contributed services and in-kind donations (see **NOTE H**).

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**NOTE D - PROMISES TO GIVE**

Unconditional promises to give consist of the following at September 30:

	<u>2018</u>	<u>2017</u>
Unrestricted promises to give	\$ 35,144	\$ 65,708
Less unamortized discount	(28)	(541)
	<u>\$ 35,116</u>	<u>\$ 65,167</u>
Amounts due in:		
Less than one year	\$ 34,144	\$ 32,500
One to five years	1,000	33,208
	<u>\$ 35,144</u>	<u>\$ 65,708</u>

**NOTE E - INVESTMENTS**

Investments are presented in the financial statements at their fair market values and consist of the following at September 30:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Cash and money market funds	\$ 279,160	\$ 279,160	\$ 75,979	\$ 75,979
U.S. treasury bills	488,170	489,222	-	-
Mutual funds	1,034,951	999,985	299,266	388,045
Fixed-income securities	-	-	482,888	487,656
Equities	253,761	340,947	-	-
Exchange traded products	697,844	728,760	-	-
Alternative investment funds	-	-	206,336	206,975
Real asset funds	-	-	95,299	97,116
	<u>\$2,753,886</u>	<u>\$2,838,074</u>	<u>\$1,159,768</u>	<u>\$1,255,771</u>

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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**NOTE E - INVESTMENTS - CONTINUED**

The following schedule summarizes the investment return for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 58,857	\$ 24,318
Investment expense	<u>(13,686)</u>	<u>(9,529)</u>
	45,171	14,789
Unrealized gain on investments	96,516	40,195
Realized gain on investments	<u>2,236</u>	<u>26,520</u>
	<u>98,752</u>	<u>66,715</u>
Net investment return	<u>\$ 143,923</u>	<u>\$ 81,504</u>

**NOTE F - PROPERTY AND EQUIPMENT**

Property and equipment is summarized as follows:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 106,402	\$ 118,466
Library	3,914	3,914
Equipment	268,795	299,352
Construction in progress	<u>16,400</u>	<u>-</u>
Total property and equipment	395,511	421,732
Less accumulated depreciation	<u>(279,429)</u>	<u>(315,480)</u>
	<u>\$ 116,082</u>	<u>\$ 106,252</u>

The development of the Food Arts Studio in the west wing began in September 2018. The Food Arts Studio is projected to be completed in February 2019 and is estimated to cost approximately \$600,000. Construction in progress of \$16,400 at September 30, 2018 represents expenses.

Total depreciation expense was \$20,054 and \$29,310 for the years ended September 30, 2018 and 2017, respectively.



**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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**NOTE G - UNAMORTIZED LEASEHOLD INTEREST**

Effective September 30, 2014, DFAC conveyed all leasehold improvements made since 1990 to the City. Additions and improvements to the leasehold interest are recorded at cost as increases in the value of the leasehold interest. Additionally, as of September 30, 2016, the second floor was completed and conveyed to the City. These leasehold interests are being amortized using the straight-line method over the life of the leasehold through September 2035. The details of the transactions follow:

<b>Leasehold Interest</b>	<u><b>2018</b></u>	<u><b>2017</b></u>
Conveyed to the City of Dunedin	\$ 7,590,122	\$ 7,590,122
Accumulated amortization	<u>(2,258,552)</u>	<u>(1,941,220)</u>
Unamortized leasehold interest	<u><u>\$ 5,331,570</u></u>	<u><u>\$ 5,648,902</u></u>

Amortization expense and amount released from restriction related to these leasehold interest for the years ended September 30, 2018 and 2017, was \$317,332 and \$352,194, respectively.

**NOTE H - CONTRIBUTED SERVICES AND IN-KIND DONATIONS**

During the years ended September 30, 2018 and 2017, contributions of materials and supplies and professional services were recorded as contributions revenue as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Maintenance services	\$ 99,561	\$ 94,100
Exhibits	3,500	30
Professional services	9,250	7,804
Events	105,256	62,770
Education	7,554	6,079
Public relations and marketing	<u>134,505</u>	<u>309,238</u>
	<u><u>\$ 359,626</u></u>	<u><u>\$ 480,021</u></u>

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**NOTE I - TEMPORARY RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2018</u>	<u>2017</u>
Restricted for capital projects	\$ 130,528	\$ 50,000
Unamortized leasehold interest	5,331,570	5,648,902
Scholarships	-	8,221
Linda Joy Wilmore Artist	3,743	3,148
Coral Hacker Youth Scholarship	2,225	-
Sizzlin' summer	3,349	3,942
Memorials - adult COC	7,269	4,223
COC Youth	800	-
Clay fund	7,723	13,521
PAVA adult ed	23	1,052
Print Making	1,729	-
David Scales Veteran's	523	677
Duke Energy - Industrial Arts	-	1,093
Betty Perkins Library	22	50
Stone Carvers	11,365	6,575
Wood Turning	341	100
Just Imagine	21,114	22,274
Pinellas Community Foundation	-	3,200
Pougialis Grant (1)	10,000	10,000
	<u>\$ 5,532,324</u>	<u>\$ 5,776,978</u>

Net assets released from restrictions were comprised of the following:

	<u>2018</u>	<u>2017</u>
Restricted for capital projects	\$ 16,400	\$ 398,946
Endowment earnings appropriated for expenditure	143,923	81,504
Purpose restrictions met	267,123	213,421
Purpose restriction - leasehold improvements donated to City of Dunedin	317,332	352,194
	<u>\$ 744,778</u>	<u>\$ 1,046,065</u>

(1) DFAC was named as a beneficiary in the Pougialis trust that became available for distribution in April 2011. The purpose of the trust is "to develop and maintain an art education program at the Dunedin Fine Art Center with said Center's assistance in developing the curriculum for elementary school age children." After lengthy legal proceedings and court mandated mediation, the case was settled in August 2014 and an independent grant awarding committee was formed to consider and approve annual distributions from the trust. As of September 30, 2018 and 2017 the Organization received \$203,000 and \$160,000, respectively, from the trust. As of September 30, 2018 and 2017, the Organization expended \$203,000 and \$160,000, respectively, in approved expenditures.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE J - PERMANENTLY RESTRICTED NET ASSETS**

The permanently restricted net assets consist of endowment donations to DFAC. The donors have instructed DFAC that the principal cannot be expended; however, the earnings generated by the original donated principal are available to be expended. Any earnings are included in temporarily restricted or unrestricted net assets as earnings are expended. Permanently restricted net assets were \$830,351 as of September 30, 2018 and 2017.

**NOTE K - LEASES**

DFAC leases certain equipment and property under various operating leases. The terms of these leases range from 36 months to 60 months. Total lease expense was approximately \$55,000 and \$51,000 for the years ended September 30, 2018 and 2017, respectively.

Based on the terms of the agreements, the minimum payments due on all leases are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2019	\$ 37,734
2020	12,091
2021	5,705
2022	5,705
2023	<u>3,328</u>
	<u>\$ 64,563</u>

**NOTE L - FAIR VALUE MEASUREMENTS**

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2018 and 2017.

*Money markets funds* - the carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

*U.S. treasury bills* - valued based on pricing models using yield curves observable at commonly quoted intervals.

*Mutual funds, fixed income securities, equities, exchange traded products, alternative investment funds, and real asset funds* - valued at quoted market prices in which individual securities are traded.

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

**NOTE L - FAIR VALUE MEASUREMENTS - CONTINUED**

The following tables represent DFAC's financial instruments measured at fair value on a recurring basis at September 30, 2018 and 2017 for each of the fair value hierarchy levels:

Fair value of assets measured on a recurring basis at September 30, 2018 is as follows:

<b>Fair Value Measurements at Reporting Date Using</b>				
<b>Description</b>	<b>Quoted Prices In Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Other Unobservable Inputs Level 3</b>	<b>Total Fair Value</b>
<b>Assets:</b>				
Cash and money market funds	\$ 279,160	\$ -	\$ -	\$ 279,160
U.S. treasury bills	-	489,222	-	489,222
Mutual funds	999,985	-	-	999,985
Equities	340,947	-	-	340,947
Exchange traded products	728,760	-	-	728,760
Total assets at fair value	<u>\$ 2,348,852</u>	<u>\$ 489,222</u>	<u>\$ -</u>	<u>\$ 2,838,074</u>

Fair value of assets measured on a recurring basis at September 30, 2017 is as follows:

<b>Fair Value Measurements at Reporting Date Using</b>				
<b>Description</b>	<b>Quoted Prices In Active Markets for Identical Assets Level 1</b>	<b>Significant Other Observable Inputs Level 2</b>	<b>Significant Other Unobservable Inputs Level 3</b>	<b>Total Fair Value</b>
<b>Assets:</b>				
Cash and money market funds	\$ 75,979	\$ -	\$ -	\$ 75,979
Mutual funds	388,045	-	-	388,045
Fixed income securities	487,656	-	-	487,656
Alternative investment funds	206,975	-	-	206,975
Real asset funds	97,116	-	-	97,116
Total assets at fair value	<u>\$ 1,255,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,255,771</u>

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE M - ENDOWMENT FUND**

DFAC's endowment (the Fund) consists of individual funds established for a variety of purposes. Its endowment is comprised of donor-restricted endowment funds. As required by US GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

DFAC received \$225,351 from an estate in fiscal 2000 to be held in perpetuity in the Fund. The interest and income can be used annually to provide for children's programs, exhibits, or other programming activities for children and adults. The initial corpus of this donation is considered to be permanently restricted while the interest and income is considered temporarily restricted if not used within the same year in which it is earned.

DFAC received a restricted endowment contribution of \$240,000 from the State of Florida in 2006. The related funding agreement required that DFAC designate an additional \$360,000 to supplement the State endowment contribution. The \$240,000 contribution reverts back to the State of Florida if DFAC ceases operations, files for bankruptcy protection, or willfully expends any portion of the \$600,000. Earnings from the Fund are available to fund DFAC's operating activities.

DFAC received a restricted endowment contribution of \$5,000 from a will in fiscal 2017.

The Board has designated certain funds to the endowment fund. The board designated funds are allocated their share of realized and unrealized gains and losses and investment income.

*Interpretation of Relevant Law*

In July 2011, the State of Florida adopted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). DFAC has interpreted FUPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, DFAC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by DFAC in a manner consistent with the standard of prudence prescribed by FUPMIFA.

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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**NOTE M - ENDOWMENT FUND - CONTINUED**

In accordance with FUPMIFA, DFAC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of DFAC and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of DFAC
- (7) The investment policies of DFAC

For the years ended September 30, 2018 and 2017, DFAC has elected not to add appreciation for cost of living or other spending policies, due to inflation and other economic conditions, to its permanently restricted endowment. Any appreciation retained is included in the unrestricted board designated endowment.

*Summary of Endowment Assets:*

Endowment assets as of September 30 are invested as follows:

	<b>2018</b>	<b>2017</b>
Investments	\$ 2,838,074	\$ 1,255,771

*Summary of Endowment Assets September 30, 2018:*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board-designated endowment	\$ 2,007,723	\$ -	\$ -	\$ 2,007,723
Donor-restricted endowment	-	-	830,351	830,351
	<b>\$ 2,007,723</b>	<b>\$ -</b>	<b>\$ 830,351</b>	<b>\$ 2,838,074</b>

*Summary of Endowment Assets September 30, 2017:*

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Board-designated endowment	\$ 425,420	\$ -	\$ -	\$ 425,420
Donor-restricted endowment	-	-	830,351	830,351
	<b>\$ 425,420</b>	<b>\$ -</b>	<b>\$ 830,351</b>	<b>\$ 1,255,771</b>

**THE DUNEDIN FINE ART CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018 AND 2017**

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**NOTE M - ENDOWMENT FUND - CONTINUED**

*Changes in endowment net assets as of September 30, 2018:*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 425,420	\$ -	\$ 830,351	\$ 1,255,771
Interest and dividends	-	45,171	-	45,171
Contributions	1,499,993	-	-	1,499,993
Net investment appreciation	-	98,752	-	98,752
Released from restriction	82,310	(143,923)	-	(61,613)
Endowment net assets, ending	<u>\$ 2,007,723</u>	<u>\$ -</u>	<u>\$ 830,351</u>	<u>\$ 2,838,074</u>

*Changes in endowment net assets as of September 30, 2017:*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning	\$ 407,121	\$ -	\$ 825,351	\$ 1,232,472
Interest and dividends	-	14,789	-	14,789
Contributions	-	-	5,000	5,000
Net investment appreciation	-	66,715	-	66,715
Released from restriction	18,299	(81,504)	-	(63,205)
Endowment net assets, ending	<u>\$ 425,420</u>	<u>\$ -</u>	<u>\$ 830,351</u>	<u>\$ 1,255,771</u>

*Return Objectives, Risk Parameters, and Strategies*

DFAC has adopted an investment and spending policy for endowment assets that attempts to preserve the real (inflation adjusted) value of endowment assets, increase the real value of the portfolio and facilitate a potential distribution to support some level of future operations. Endowment assets include those assets of donor-restricted funds that DFAC must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The terms of the operating policies of the endowment fund requires that it will be managed by an outside investment counselor recommended by the Endowment Committee and approved by the Board of Directors. The Investment Committee is responsible for the investment selections, subject to guidance from the Endowment Committee. The objective of the Fund is to invest funds in accordance with the standards set forth in Section 518.11, Florida Statutes. The amount invested in equities shall vary from time to time and shall be established by the committees as conditions permit.

**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE M - ENDOWMENT FUND - CONTINUED**

*Spending Policy*

DFAC is operating under an approved endowment spending policy that seeks to preserve the purchasing power of the Fund while providing income at the highest attainable level. The earnings and accumulations in the Fund are budgeted annually and are to be used based on expected total return and taking restrictions into account. There is to be no invasion of the original principal of the gift given to DFAC unless the donor instructs otherwise.

The Fund can distribute, annually, up to 5% of the average market value of the preceding twelve calendar quarters. Within forty-five days of the end of the fiscal year, the Chairman of the Endowment Committee, upon review and approval by the Endowment Committee, shall recommend to the Board of Directors the amount from the prior fiscal year, if any, to be distributed from the Endowment Fund and the Board of Directors shall determine the purpose for which the amount shall be used. In the event the funds are not distributed in any given year, funds up to calculated amount may be distributed in a subsequent year.

**NOTE N - LINE-OF-CREDIT**

DFAC had a \$250,000 revolving line-of-credit available at a financial institution at September 30, 2018 and 2017. The line-of-credit is unsecured and bears interest at a rate equal to the prime rate plus 0.50% (5.75% and 4.75% at September 30, 2018 and 2017, respectively). The line-of-credit automatically renews annually and is payable on demand. The line-of-credit is cross-collateralized with the note payable - this note payable was satisfied in April 2017 (see **NOTE O**). There was no balance outstanding on the line-of-credit at September 30, 2018 and 2017.

**NOTE O - NOTE PAYABLE**

DFAC entered into a \$1,500,000 note payable with a financial institution on February 24, 2014 for the construction of a two-story addition and space renovations to an existing building. The note payable was collateralized by property and equipment, assignment of pledges and a portion of endowment funds. The note bears interest at a rate of 3.95% fixed for five years adjusting at the end of the 5<sup>th</sup> year at 325 basis points above the then corresponding five years US Treasury Note Rate, fixed for an additional five years. There will be a floor of 3.95%. There is an interest only phase for the first twenty-four months and the note matures eight years from the interest only phase. The note matures on February 24, 2024.

The loan was modified on November 25, 2016. The revised principal amount was \$186,026 with monthly payments of \$2,110.42 for 27 months at 3.95% fixed interest starting on December 24, 2016. There was no balance on this note payable at September 30, 2018 and 2017. This note payable was satisfied in April 2017.



**THE DUNEDIN FINE ART CENTER, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018 AND 2017**

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**NOTE P - PENSION PLAN**

Full-time employees of DFAC may elect to participate in a self-directed Simple IRA plan. The employees' tax-deferred contribution will be matched by DFAC up to a maximum of 3% of their salary. This plan is administered by a broker-dealer and provides the participants with the option to invest in several different registered investment funds.

The matching contributions provided by DFAC for the fiscal years ended September 30, 2018 and 2017 was \$18,926 and \$17,793, respectively. This amount is a component of employee benefits on the statement of functional expenses.

**NOTE Q - COMMITMENTS AND CONTINGENCIES**

DFAC receives support from grantor agencies for its programs. If this support were to be reduced or eliminated, it could affect the operation of the supported programs. In addition, DFAC is subject to audit examination by the grantor agencies. In the event that reimbursed expenditures were disallowed, repayment would be required.

**NOTE R - SUBSEQUENT EVENTS**

DFAC evaluated its subsequent events through January 10, 2019, the date the financial statements were available and issued. DFAC is not aware of any subsequent events which would require recognition or disclosure in the financial statements.